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Improving the financial situation of the United Nations

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Report of the Secretary-General

I. Introduction

1. The present report updates the information on the financial situation of the United Nations contained in the previous report of the Secretary-General (A/55/504/Add.1). It also provides information on the financial situation of the Organization as at 30 September 2001 and projections to 31 December.

II. Review of the financial situation as at 30 September and prospects to 31 December 2001

A. Overview

2. The timing and amount of cash inflows is central to the decision-making process, which determines in large measure the Organization's financial situation. The present report therefore focuses on actual cash inflows as at 30 September 2001, as well as cash payments expected during the last quarter of this year based on information received from Member States and on prior payment patterns, both in the aggregate and by category — that is, the regular budget, peacekeeping and the international tribunals.

3. Figures for the United States of America are based on information provided by that Government that its domestic legislation for funding payments has, for the most part, been finalized and that payments in the last quarter of 2001 should total $1,459 million. Together with current payments and credits of $207 million ($15 million to the regular budget, $20 million to the international tribunals and $172 million to peacekeeping), total payments and credits for the United States in 2001 should amount to $1,666 million. The components of the last quarter's payment by the United States include $582 million for the second tranche of its payment for peacekeeping arrears, $572 million for this year's peacekeeping assessments, $23 million for the international tribunals, $251 million for the regular budget payment and an additional contribution of $31 million, made possible by Ted Turner, promised in the context of the General Assembly's approval of the scale of assessments for 2001-2003 (see resolution 55/235).

4. As a result of those payments and those of other Member States, total payments should reach $4,716 million by the end of the year, exceeding projected assessments of $4,246 million in 2001.

5. This means that for the first time in many years the United Nations will have a more secure and solid base on which to do business. Issues long held in abeyance can now be tackled, including delayed

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reimbursements for troops and equipment, cash deficits and the need to cross-borrow from peacekeeping accounts.

B. Current assessment levels

6. Assessment levels are the best indicator of the service demands placed upon the Organization and the resources required to meet those demands. Aggregate assessment levels for 2001 are estimated at $4,246 million, reflecting a major increase over those for 2000. They are also twice the size of those for 1999 and very close to the previous highs in 1994 and 1995.

7. Regular budget assessment levels have been static over the past eight years, including this year, remaining at just over $1 billion. Real costs have been reduced sufficiently to absorb inflation, special mission costs and other unforeseen costs relating to peace and security and to produce a regular budget, which today is lower than in 1994. The level of regular budget assessments is a clear confirmation of the Organization's attention to financial discipline.

8. However, some challenges related to maintaining the level of the regular budget for this year have become evident. Inflation has been higher and exchange rates have been more volatile and, of late, unfavourable. Adding to these increased costs are the additional services requested by Member States. As a result, a final reading on maintaining the 2001 budget level cannot be made until the end of the year, when the General Assembly reviews the final performance report for the biennium 2000-2001.

9. Tribunal assessment levels have increased steadily over the past five years. The International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia have combined assessments for 2001 of $169 million and approximately 1,800 staff members.

10. Assessment levels for peacekeeping missions have been erratic from year to year, depending on mission requirements and objectives. Assessments for peacekeeping operations in 1994 and 1995 were very high, with diminishing amounts each year thereafter from 1996 to 1999. There has been a rapid rise since then, and assessments in 2001 are likely to be only slightly below the high level reached in 1994. With eight assessment letters issued this year and one or two more still expected to be issued, depending on decisions of the Security Council, the level of peacekeeping assessments is forecast to reach over $3 billion by the end of the year.

11. Currently, peacekeeping assessments are concentrated in five large missions, the United Nations Mission in Sierra Leone (UNAMSIL), the United Nations Transitional Administration in East Timor, the United Nations Interim Administration Mission in Kosovo, the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC) and the United Nations Mission in Ethiopia and Eritrea (UNMEE). By the end of the year, assessments for those missions are expected to total $2.4 billion. Assessments for the remaining seven missions may total around $600 million.

III. Key indicators

12. The level of unpaid assessments, the level of cash balance and the level of debt to Member States are the three key indicators of the financial situation of the Organization. The analysis that follows is based on a review of those three indicators showing actual results for the months of January to September 2001 and a preliminary estimate for the remaining three months of the year.

A. Unpaid assessments

Overall

13. At 30 September 2001, unpaid assessments totalled $3,893 million. A year earlier, the amount was $3,094 million. All three budgetary areas (the regular budget, peacekeeping and the international tribunals) show increases in amounts unpaid compared with the previous year. The regular budget figure increased from $533 million to $541 million. Unpaid peacekeeping assessments moved to an unprecedented high level of $3,281 million from $2,507 million a year earlier, and unpaid tribunal assessments increased from $54 million to $71 million. Based on payments expected by the end of this year, however, the level of unpaid assessments should fall to $1,799 million as at 31 December 2001.

Regular budget

14. As regards the regular budget, total unpaid assessments at 30 September 2001 amounted to $541 million. The United States owed $447 million, or 83 per cent. Brazil and Argentina owed the next largest amounts, $33 million and $19 million respectively, with the remaining Member States owing $42 million. As at 31 December 2001, unpaid amounts are projected to decrease to $217 million, of which 76 per cent, or $165 million, would relate to the United States and $52 million, or 24 per cent, would relate to 64 other Member States.

15. Over the past several years there has been a steady increase in the number of Member States paying their regular budget assessments in full. As at the end of September 2001, 122 Member States had fully paid all their regular budget assessments for this year and all prior years. However, at the same time last year, 131 Member States had paid in full. At the end of last year, the total number of States paying their regular budget assessments in full reached 141. In order to continue the improvement of recent years, at least 20 more Member States would need to pay their regular budget contributions in full by the end of this year.

International tribunals

16. As for the international tribunals, unpaid assessments as at 30 September stood at $71 million. The United States owed $38 million, or 53 per cent of the total. Two other Member States, Brazil and the Russian Federation, owed $7 million and $14 million respectively, for a total of $21 million. Other Member States together owed $12 million.

17. A further $23 million is expected from the United States by year's end for the international tribunals, reducing to $15 million the amount due at the end of the year from that Member State. That would leave the United States with 34 per cent of the projected total unpaid. Other Member States are projected to have aggregate unpaid amounts of $29 million, or 66 per cent of the total.

Peacekeeping

18. At the end of September unpaid peacekeeping assessments had reached the high level of $3,281 million. Of that amount, the United States owed $1,837 million, or 56 per cent, the other 14 major contributors owed $1,041 million, or 32 per cent, and the remaining Member States owed $403 million, or 12 per cent.

19. A number of payments are expected from Member States over the next three months. These include $582 million from the United States in arrears and $572 million in respect of the current year's assessments. On that basis, at 31 December 2001, amounts due from the United States for unpaid peacekeeping assessments are projected to total $683 million, or 45 per cent of aggregate amounts outstanding, a marked change from recent years. Significant payments from other Member States are also expected by year's end, reducing the amount owed by those Member States to $855 million, or 55 per cent of the aggregate amount.

B. Available cash

Regular budget

20. This year began with a positive balance for the regular budget in the General Fund and related accounts of $66 million, followed in January to June with receipts for the most part in excess of disbursements. The months of July to September showed cash balances fluctuating above and below the zero mark. At the end of September, however, the Organization's available cash decreased to minus $22 million. This deficit position is expected to continue and deepen through October and November, when the deficit is projected to reach negative figures of $92 million and $147 million.

21. As a result of the confirmation by the United States that the remaining portion of its regular budget payment for 2001 would be paid, despite the possibility that some conditions might be imposed by that Government's legislative branch that would require some withholding of funds, a payment of $251 million has been projected to be received by the end of the year. As a result, at 31 December, regular budget cash balances are forecast at $2 million.

22. The recurring cash deficit during the last three months of each year has become a chronic situation. It will be set right only when all Member States pay their regular budget assessments when they are due, on or before 31 January.

Peacekeeping

23. The situation regarding peacekeeping cash for 2001 is, in many respects, the opposite of that regarding regular budget cash. There were low balances at the beginning of the year and larger balances are expected at the end of the year. From January to August, balances were at a base level, with variations generally reflecting operational needs, which vary somewhat each month. Cash balances began to increase in September with the receipt of payments. October and November should see higher levels, amounting to approximately $1.8 billion, at the end of each month, as a result of the arrears payment of $582 million from the United States as well as its current-year payment of $572 million for peacekeeping assessments.

24. However, cash balance is expected to decrease to $1,238 million at year's end as a result of the long-overdue payments that are expected to be made to Member States for troops and contingent-owned equipment. It is the Secretary-General's intention to make payments to troop and equipment providers as soon as possible once the payment of $582 million in arrears has been received from the United States.

Combined cash situation

25. Combined cash at the end of the year is projected at $1,264 million, consisting of $1,238 million for peacekeeping, $24 million for the tribunals and $2 million in regular budget accounts. This is a balanced picture, not good in all respects but better than in most recent years.

C. Amounts owed to Member States

26. Debt to Member States has in the past been characterized as intractable. This year could see a dramatic change.

27. The United States has informed the Secretariat that legislation authorizing a peacekeeping arrears payment of $582 million has been signed into law. Payment is expected, after a 30-day waiting period required by United States law, in early November.

28. The total payment of $582 million will be received in two parts, a cash payment of $475 million and a credit for the benefit of the United Nations of $107 million arising out of the application by the United States of amounts owed by the United Nations for troops, contingent-owned equipment and letters of assist against obligations owed by the United States for peacekeeping assessments. The credit arising from the application of amounts due to the United States in effect saves the United Nations $107 million that would otherwise require the disbursement of cash. In effect, the financial position of the United Nations is benefited to the full extent of $582 million.

29. Payment of any amount to Member States for troop and contingent-owned-equipment debt requires certification. It is the intention of the Secretariat to effect the payment for all certified contingent-owned equipment claims, now totalling $505 million, as soon as the arrearage payment from the United States is received. Those payments will be made to 48 Member States in respect of nine completed and five active missions. The remaining portion of the United States arrears, or $77 million, will be held until claims that are currently being processed are certified.

30. At 1 January 2001, debt to Member States stood at $917 million, $164 million owed for troops and $753 million owed for contingent-owned equipment. Current payments applicable to prior-year obligations had been forecast at $100 million, to be paid to Member States for year-2000 obligations. However, a higher level of payment, some $131 million, was paid instead.

31. New obligations for 2001, however, are forecast to be higher than originally envisaged — $668 million compared with $504 million. This increase is due to three factors. First, several missions, namely UNAMSIL, UNMEE and MONUC have larger contingent-owned equipment components than most other missions. Second, the General Assembly recently approved higher rates of reimbursement for troops and equipment, and, third, the Department of Peacekeeping Operations revised the estimated amounts due. It is now forecast, therefore, that new 2001 obligations will total $668 million instead of $504 million.

32. As for payments for new obligations, one payment of $54 million was made for contingent-owned equipment in June. Unfortunately, the cash situation of the Organization and the operational requirements of the active missions did not allow for the reimbursement of troop costs to Member States during July and August. However, because of the current cash situation, a second progress payment for contingent-owned equipment, amounting to some $16

million, was paid in the first week of October. It is also projected that payments will be made in November and December for both troops and contingent-owned equipment in the amount of $380 million. Thus, reimbursement payments for new 2001 obligations should total $450 million.

33. In addition, a further payment to Member States of $166 million in connection with the remaining obligations in 2001 is projected to be made in early 2002. If that latter amount is paid, the original forecast for debt of $904 million will be reduced to $256 million.

34. Based on the above plan of action, the Secretariat would be current in terms of paying troop-contributing countries, with the exception of some $37 million for certified claims for the United Nations Transitional Authority in Cambodia, the United Nations Operation in Mozambique and the United Nations Mission in the Central African Republic.

IV. Conclusion

35. Member States are calling upon the United Nations to provide more and more services in more and more areas. Such demands can be met only if the Organization is financially secure. Prospects for financial security are positive, assuming that the projections for payments in the last quarter of 2001 as set out in the present report are accurate. Unpaid assessments would be lower, combined cash would be higher and debt to Member States would be greatly reduced. At a time when it may be needed more than ever, financial stability and security finally appear closer at hand.